

~~SECRET~~Control No. 457280
30 January 1956THE ECONOMIC COST TO THE FREE WORLD OF THE MAINTENANCE OF
TRADE CONTROLS AGAINST THE SOVIET BLOCIntroduction

The cost to the Free World economy as a whole of controls on trade with the Sino-Soviet Bloc is a function of the amount of trade cut off by controls. Unfortunately, there is no systematic way of measuring frustrated demands, nor is there any way of knowing how much increased purchases of decontrolled commodities might in time be offset by decreased purchases of other goods. There is substantial evidence that the aggregate level of East-West trade is much more a function of Soviet economic policies than of Western trade controls. Thus there is a strong presumption that Western trade controls do not greatly restrict the total level of trade and that total East-West trade would not undergo a spectacular increase if Western controls were abolished.

Trends in Bloc-Free World Trade Since 1948

Two way trade between the Sino-Soviet Bloc and the rest of the world in post-war years has hovered between \$3 and \$4 billion a year. From a pre-control level of \$4 billion in 1948, this trade declined in value to less than \$3 billion in 1952. Preliminary estimates indicate that the 1948 level was reattained in 1955. Sino-Soviet trade with the Free World during this period has constituted only about 2 percent of Bloc total economic product.

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The commodity composition of Bloc trade with the rest of the world, however, has changed significantly since 1948. In the earlier post-war years the Bloc was a net importer of manufactured goods and a net exporter of food products. The situation is now changed. In 1954 for the first time the USSR and the European Satellites became net importers of food. While the Bloc remains a net importer of manufactured goods such imports have remained stable in recent years while exports have increased rapidly. The European Satellites are currently net exporters of manufactured goods.

The geographic distribution of Bloc-Free World trade remained relatively stable over the post-war years. Trade with Western Europe represented about two-thirds of total Bloc trade in the immediate post-war period and remained at about this level in 1955. The principal change has been the growing relative importance of trade with Latin America. With the exception of the U.S. all major industrial countries have essentially recovered pre-control levels of trade with the Bloc. Free World trade with the Bloc, however, has decreased in importance as a result of the general increase in the level of world trade.

Bloc Capability for Expanding Imports

The Bloc retains a capability for considerable expansion of its imports from Free World areas. The USSR and European Satellites could with little effort increase their imports of presently controlled goods by \$100 to \$200 million annually merely by the sale of gold. In the case of Communist China, a similar increase in the value of imports might be

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expected to occur. The U.S. and Japan would be the principal markets to which China would be expected to turn for this increase. Such expansion, though amounting to 10 percent to 20 percent of the present level of Free World exports to the Soviet Bloc, would have a small affect upon total Free World trade. For particular businesses in a few countries, especially Japan, this improvement in trade would be regarded as important.

Temporarily the Bloc could increase its imports by upward of \$1 billion without serious internal dislocations. If the Bloc abandoned its present policy of self-sufficiency, it could maintain and even increase such an expansion of trade for an indefinite period with little effect upon the Bloc's other long-range economic objectives. However, it is unlikely that the Bloc would make such a change in policy even if virtually all trade controls were eliminated.

Bloc Demand for Controlled Commodities

The development of trade between the Sino-Soviet Bloc and the Free World in commodity categories usually characterized as strategic has changed considerably in the period since the imposition of trade controls. The change is a function of two major directions of Bloc action. First, there has been a continuous attempt on the part of the USSR to achieve a position of self-sufficiency. As the size and complexity of the Soviet economy increased, there was a corresponding increase in Soviet Bloc independence of foreign trade. The expansion of the sphere of Soviet influence in Central Europe and the Far East added to the already highly diversified Soviet resource base and increased the area of Soviet flexibility in

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international trade. To this end the economies of the European Satellites and Communist China have been substantially reoriented and increasingly industrialized under Soviet direction. Second, the tendency to autarky inherent in communist doctrine was reinforced by the Free World application of trade controls on strategic commodities and services, thus accelerating the rate at which the Sino-Soviet Bloc sought to free itself of dependence upon the rest of the world in international trade.

The product of three decades of Soviet effort toward autarky reinforced by over five years of trade controls is a rapidly expanding Soviet capability to export many items similar to those controlled by the Free World. Soviet exports of machinery and equipment, of chemicals and petroleum products and of complete industrial installations (including the technical staffs to arrange installation and train technicians in their use) have increased at a far more rapid pace than Soviet imports of like commodities. Sino-Soviet Bloc exports of machinery and equipment, chemicals and petroleum products to the Free World increased very substantially in 1953 to 1956 while such imports remained constant in the same period.

The trade pattern of the Bloc each year has become increasingly similar to that of other modern industrial nations with a rich resource base. The share of machinery and equipment in the export list continues to increase at the expense of food and industrial raw materials and the share of food and industrial raw materials in the import list grows at the expense of machinery and equipment. The types of machinery and

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equipment which the USSR wishes to purchase abroad become increasingly specialized and complex as do their machinery and equipment exports.

Bloc demand for controlled materials and equipment from the West, even for complex industrial equipment, is largely confined to relatively few items and expresses itself more in a desire for prototype models to improve Soviet industrial technique than in a mass market for large scale production of machinery items. Many of the items required by the Bloc are now subject to embargo. The complete abolition of controls would be expected to lead to some increase in Bloc purchases from the West, but the value of this increase should not be expected to exceed 10 to 20 percent over present Bloc purchases from the industrial countries of the Free World.

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FREE WORLD TRADE WITH THE SINO-SOVIET BLOC
1954-1955

	Million \$U.S.	
	1954	1955 (Preliminary)
<u>Free World Exports to the Bloc</u>		
TOTAL	\$1,762.8	\$1,873.0
U.S. and Canada	12.0	16.9
O.E.E.C. Countries	997.8	1,052.2
Other Europe	196.7	229.9
Near East and Africa	122.8	159.2
Far East	218.8	236.4
Oceania	73.1	50.6
Latin America	141.5	127.8

<u>Bloc Exports to the Free World</u>		
TOTAL	\$1,832.1	\$2,315.8
U.S. and Canada	54.9	75.3
O.E.E.C. Countries	1,050.2	1,332.1
Other Europe	198.2	228.0
Near East and Africa	121.9	131.5
Far East	286.9	386.8
Oceania	15.4	16.4
Latin America	108.6	155.7

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